

Equity Research

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SC **\$11.85**

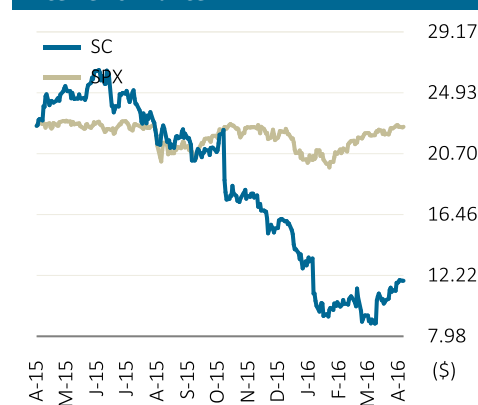
12 month target \$21.00

BUY

52 week range \$8.87 - \$26.52

Market Cap (m) \$4,223

Price Performance



Source: IDC

Financials

Santander Consumer USA Holdings

SC Posts 1Q16 EPS Beat as Trade-off of Better Credit for Less Market Share More Bearable in Current Market

During the road show leading up to Santander Consumer USA's (SC, Buy, \$21 PT) January 2014 initial public offering, many investors were impressed by the company's track record of pulling back on subprime auto loan originations during times when the algorithms that generated its credit decisions indicated that it was appropriate to do so. However, when SC curtailed its lending for a brief period a few months later, the market punished the company's shares given reduced near-term growth prospects.

- Flash forward to 1Q16. With investors increasingly leery about the potential for credit issues at some smaller subprime auto lenders to manifest themselves in earnest at SC, and those concerns weighing heavily on the stock price as reflected in its forward earnings multiple of just 5.3x, we believe the trade-off of better credit for less growth is likely to be much better received.
- That theory will be tested today as SC reported a 1Q16 earnings beat this morning that reflected management's disciplined approach to underwriting in the quarter and the resulting loss of market share as well as a better-than-expected provision for loan losses. The company reported 1Q16 earnings per share of \$0.59, beating the consensus estimate of \$0.56 and our estimate of \$0.55.
- We are reiterating our Buy recommendation on SC and price target of \$21** based on 8x our 2017E EPS of \$2.59. We believe the recent takeover chatter around SC has underscored its franchise value and that concerns about meaningful credit deterioration are overblown in its case.
- SC's core retail auto originations declined by 15% year-over-year to \$2.6bn while total auto loan originations fell by 7.8% versus the prior year period.
- Valuation:** Our price target of \$21 for SC is based on 8x our 2017E EPS of \$2.59.

Estimates

	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	1Q16 A	2Q16 E	3Q16 E	4Q16 E	FY16 E	FY17 E
Net Income (Adj.)	289	285	224	68	866	201	241	207	188	836	948
Diluted EPS (Adj.)	0.81	0.79	0.62	0.19	2.41	0.56	0.67	0.57	0.52	2.30	2.59
Operating Income	431	447	353	109	1,339	317	376	324	294	1,310	1,481

Source: BTIG Research Estimates and Company Documents (\$ in millions, except per share amount)

Please Read: Important disclosures and analyst's certification appear in Appendix

- ▶ Meanwhile, SC's allowance ratio remained steady at 12.4% in 1Q16, up from 12.3% in 4Q15, and its provision for credit losses of \$707mm was down \$83mm sequentially and meaningfully below our estimate of \$792.5mm.

Income Statement

Santander Consumer USA Operating Model	Dec-11	Dec-12	Dec-13	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Dec-16	Dec-17
\$ millions	2011A	2012A	2013A	2014A	1Q15A	2Q15A	3Q15A	4Q15A	2015A	1Q16A	2Q16E	3Q16E	4Q16E	2016E	2017E
Total finance and other interest income	2,594.51	2,948.50	3,934.02	5,569.66	1,570.29	1,683.12	1,733.53	1,749.89	6,736.82	1,675.47	1,799.93	1,798.61	1,832.60	7,106.61	7,566.49
Interest expense	418.53	374.03	408.79	523.20	148.86	150.62	171.42	157.89	628.79	184.74	188.43	192.20	196.04	761.41	848.87
Leased vehicle expense	-	-	121.54	740.24	273.06	281.12	296.35	336.45	1,186.98	218.78	251.60	250.34	249.09	969.80	947.51
Net interest margin	2,175.99	2,574.48	3,403.69	4,306.22	1,148.37	1,251.38	1,265.75	1,255.55	4,921.05	1,271.95	1,359.90	1,356.08	1,387.48	5,375.41	5,770.10
Provision for loan losses	819.22	1,122.45	1,852.97	2,616.66	605.98	738.74	744.14	799.98	2,888.83	706.57	807.84	855.79	916.30	3,286.51	3,585.94
Profit sharing	-	-	78.25	74.93	13.52	21.50	11.82	10.65	57.48	11.39	11.51	11.62	11.74	46.26	49.10
Net interest margin after provisions & profit sharing	1,356.77	1,452.02	1,472.48	1,614.64	528.87	491.14	509.80	444.92	1,974.73	553.99	540.55	488.66	459.43	2,042.63	2,135.06
Gain on sale of receivables	-	-	40.69	116.77	21.25	86.67	1.57	(225.61)	(116.13)	(73.15)	-	-	-	(73.15)	-
Servicing fee income	251.39	34.14	25.46	72.63	24.80	28.04	35.91	42.36	131.11	44.49	45.61	46.75	47.92	184.76	218.87
Fees, commissions and other	201.14	261.55	245.41	368.28	101.13	94.27	93.08	86.60	375.08	101.34	103.36	105.43	107.54	417.66	456.52
Total other income	452.53	295.69	311.57	557.67	147.18	208.98	130.55	(96.65)	390.07	72.68	148.97	152.18	155.45	529.27	675.39
Salary and benefit expense	213.69	225.16	305.06	482.64	100.54	110.97	136.29	95.41	443.21	119.84	122.24	124.68	127.18	493.94	524.17
Servicing and repossession expense	155.86	136.55	147.54	201.02	58.83	55.47	60.77	66.46	241.52	73.55	74.28	75.02	75.77	298.62	310.75
Other operating costs	187.54	197.45	246.36	278.38	86.01	86.99	90.28	77.43	340.71	116.45	117.04	117.62	118.21	469.32	494.49
Total costs and expenses	557.08	559.16	698.96	962.04	245.38	253.43	287.34	239.30	1,025.45	309.84	313.56	317.33	321.16	1,261.89	1,329.41
Income before taxes	1,252.21	1,188.55	1,085.09	1,210.27	430.68	446.69	353.01	108.98	1,339.35	316.82	375.96	323.51	293.73	1,310.02	1,481.04
Income taxes	464.03	453.62	389.42	443.64	141.43	161.23	129.11	41.23	472.99	116.13	135.35	116.46	105.74	473.68	533.18
Net income	788.18	734.93	695.67	766.63	289.25	285.46	223.90	67.74	866.36	200.69	240.62	207.05	187.99	836.34	947.87
Noncontrolling interests	(19.98)	(19.93)	1.82	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to Santander Consumer USA	768.20	715.00	697.49	766.63	289.25	285.46	223.90	67.74	866.36	200.69	240.62	207.05	187.99	836.34	947.87
Comprehensive income	776.16	737.27	701.98	766.63	289.25	285.46	223.90	67.74	866.36	200.69	240.62	207.05	187.99	836.34	947.87
Earnings per share	\$3.13	\$2.07	\$2.01	\$2.15	\$0.81	\$0.79	\$0.62	\$0.19	\$2.41	\$0.56	\$0.67	\$0.57	\$0.52	\$2.30	\$2.59
Dividends per share	\$0.00	\$0.00	\$0.84	\$0.30	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Shares outstanding	245.78	346.16	346.18	355.86	356.65	359.19	362.22	361.96	360.01	360.23	361.13	362.03	362.94	362.94	366.58

Source: BTIG Research Estimates and Company Documents

Appendix: Analyst Certification and Other Important Disclosures

Analyst Certification

I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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Company Valuation and Risk Disclosures

Santander Consumer USA Holdings (SC, Buy)

Valuation: Our price target of \$21 is based on 8x our 2017E earnings per share of \$2.59

Risks: Primary risks to our recommendation include reduced access to funding; higher-than-expected default rates, particularly on nonprime receivables; poor portfolio performance that triggers credit enhancement provisions on the company's revolving credit facilities or secured structured financings; inability to meet certain milestones and metrics that could result in the termination of the company's agreement with Chrysler; adverse changes in interest rates; adverse economic conditions; and regulatory risks.

Santander Consumer USA Holdings (SC)



Note: Closing Price and Target Price have been adjusted for corporate actions.

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
22-Jan-14	25.25	31	Mark Palmer	Buy
04-Nov-14	17.29	26	Mark Palmer	Buy
28-Apr-15	24	28	Mark Palmer	Buy
30-Jul-15	24.18	30	Mark Palmer	Buy
25-Jan-16	13.40	21	Mark Palmer	Buy

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